

**TUSTIN AREA FIRE DISTRICT**

**TUSTIN, MICHIGAN**

**MARCH 31, 2008**

*Baird, Cotter and Bishop, P.C.*  
**CERTIFIED PUBLIC ACCOUNTANTS**

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TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

MARCH 31, 2008

TABLE OF CONTENTS

	<u>PAGES</u>
<b>Independent Auditors' Report</b>	i
<b>Management's Discussion and Analysis</b>	ii-vii
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Fund	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes In	
Fund Balances to the Statement of Activities	6
Notes to Financial Statements	7-14
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund	15

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
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June 3, 2008

### INDEPENDENT AUDITORS' REPORT

To the Fire Board  
Tustin Area Fire District  
Lake and Osceola Counties  
Tustin, Michigan

We have audited the accompanying financial statements of the governmental activities and major fund information of the Tustin Area Fire District, Tustin, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Fire District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fire District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund information of the Tustin Area Fire District, Tustin, Michigan as of March 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages ii through vii and budgetary comparison information on page 15 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Tustin Area Fire District is a joint venture volunteer fire district supported by the Townships of Burdell, Dover, and Sherman that has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Tustin Area Fire District board's discussion and analysis of the financial results for the fiscal year ended March 31, 2008.

**Financial Highlights**

- ◆ The assets of the Fire District exceeded its liabilities at the close of the fiscal year by \$709,985. Of this amount, \$257,949 may be used to meet the Fire District's ongoing obligations to citizens and creditors.
- ◆ At the end of the current fiscal year, the fund balance for the General Fund was \$257,949.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Fire District's basic financial statements. The Fire District's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** The *government-wide financial statements* are designed to provide readers with a broad overview of the Fire District's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Fire District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Fire District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire District is improving or deteriorating.

The *Statement of Activities* presents information showing how the Fire District's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Fire District that are principally supported by intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Fire District include public safety. The fire district supports no business-type activities.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. All of the funds of the Fire District are governmental funds.

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Fire District’s financial position over time. The Net Assets of the Fire District were \$709,985 at March 31, 2008, meaning the Fire District’s assets were greater than its liabilities by this amount.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Tustin Area Fire District**  
**Net Assets as of March 31, 2008**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Current Assets	\$ 258,842
Non Current Assets	
Capital Assets	905,010
Less: Accumulated Depreciation	<u>452,974</u>
 Total Non Current Assets	 <u>452,036</u>
 <b>Total Assets</b>	 <u><u>\$ 710,878</u></u>
 <b>Liabilities</b>	
Current Liabilities	<u>\$ 893</u>
 <b>Net Assets</b>	
Invested in Capital Assets	452,036
Unrestricted	<u>257,949</u>
 <b>Total Net Assets</b>	 <u>709,985</u>
 <b>Total Liabilities and Net Assets</b>	 <u><u>\$ 710,878</u></u>

The most significant portions of the Fire District's Net Assets are cash and investment in capital assets (e.g. land, buildings and equipment), less any related debt that is outstanding that the Fire District used to acquire or construct the asset.

At the end of the current fiscal year, the Fire District is able to report positive balance in net assets for the government as a whole.

The following table illustrates and summarizes the results of the changes in the net assets for the Fire District. The condensed information was derived from the government-wide Statement of Activities.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Tustin Area Fire District**  
**Change in Net Assets**  
**for the Fiscal Year Ended March 31, 2008**

	<b><u>Governmental Activities</u></b>
<b><u>Revenues</u></b>	
<b>General Revenues</b>	
Contributions from Local Units	\$ 146,891
Interest Earnings	6,008
Other	<u>7,355</u>
<b>Total Revenues</b>	<u>160,254</u>
<b><u>Expenses</u></b>	
Public Safety	<u>131,782</u>
Change in Net Assets	28,472
<b><u>NET ASSETS</u></b> - Beginning of Year	<u>681,513</u>
<b><u>NET ASSETS</u></b> - End of Year	<u><u>\$ 709,985</u></u>

**Governmental Activities**

During the fiscal year ended March 31, 2008, the Fire District's net assets increased by \$28,472. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Fire District to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of Tustin Area Fire District comes from the Townships of Burdell, Dover and Sherman. Each unit contributes an amount based on taxable value in each unit to support the Fire District equal to 2.00 mills for fire protection. This revenue is shown as contributions from local units.

The Fire District's governmental activities expenses are dominated by public safety expenses that total 100% of total expenses. The Fire District spent \$131,782 in fiscal year 2008 on public safety expenses. Expenses for insurance represent a large portion of the public safety expenses at \$17,599. Depreciation expense added another \$72,588.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Financial Analysis of the Government's Funds**

**Governmental Activities** The focus of Tustin Area Fire District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Fire District's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**General Fund** – At the end of the current fiscal year, Tustin Area Fire District's general fund reported an ending fund balance of \$257,949. Of the General Fund's fund balance, \$4,306 is reserved for prepaid expenditures and \$253,643 is unreserved. The fund balance of the Fire District's general fund decreased by \$71,800 during the current fiscal year.

**General Fund Budgetary Highlights**

During the year, individual expenditure lines were amended to agree with actual expenditures. In total, Public Safety expenditures did not change.

**Capital Assets and Debt Administration**

**Capital Assets.** The Fire District's investment in capital assets for governmental activities as of March 31, 2008, amounted to \$452,036 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$500 individually and have a useful life greater than one year. A summary of capital asset categories is illustrated below:

**Tustin Area Fire District**  
**Capital Assets as of March 31, 2008**

	<b><u>Governmental Activities</u></b>
Land Improvements	\$ 3,480
Buildings	111,914
Building Improvements	9,822
Equipment	<u>779,794</u>
	905,010
Less: Accumulated Depreciation	<u>452,974</u>
 <b>Net Capital Assets</b>	 <b><u><u>\$ 452,036</u></u></b>

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Major capital asset events during the current fiscal year included the following:

- Purchased a new fire tanker truck at a cost of \$167,867.
- Purchased other various equipment at a total cost of \$4,993.

**Long-Term Debt.** As of March 31, 2008, the Fire District was not obligated for any long-term debt.

**Economic Condition and Outlook**

The Fire District is expected to be supported by the Townships in the future.

This factor was considered in preparing the Fire District's budgets for the 2008-09 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Fire District's finances and to demonstrate the Fire District's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Tustin Area Fire District at 16724 22 Mile Road, Tustin, Michigan 49688.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN  
STATEMENT OF NET ASSETS  
MARCH 31, 2008

	<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
<u>CURRENT ASSETS</u>		
Cash		\$ 225,189
Due from Other Governments		29,347
Prepaid Expenditures		4,306
Total Current Assets		<u>258,842</u>
<u>CAPITAL ASSETS</u>		
Land Improvements		3,480
Buildings		111,914
Building Improvements		9,822
Equipment		779,794
		<u>905,010</u>
Less: Accumulated Depreciation		452,974
Total Capital Assets		<u>452,036</u>
TOTAL ASSETS		<u><u>\$ 710,878</u></u>
	<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable		\$ 893
<u>NET ASSETS</u>		
Invested in Capital Assets		452,036
Unrestricted		257,949
TOTAL NET ASSETS		<u>709,985</u>
TOTAL LIABILITIES AND NET ASSETS		<u><u>\$ 710,878</u></u>

The accompanying notes are an integral part of the financial statements.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2008

					NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			TOTALS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>					
Public Safety	\$ 131,782	\$ 0	\$ 0	\$ 0	\$ (131,782)
<u>GENERAL REVENUES</u>					
	Contributions from Local Units				146,891
	Interest Earnings				6,008
	Other				7,355
	Total General Revenues				160,254
	Change in Net Assets				28,472
	<u>NET ASSETS</u> - Beginning of Year				681,513
	<u>NET ASSETS</u> - End of Year				\$ 709,985

The accompanying notes are an integral part of the financial statements.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

GOVERNMENTAL FUND

BALANCE SHEET  
MARCH 31, 2008

	<u>GENERAL FUND</u>
 <u>ASSETS</u>	
Cash	\$ 225,189
Due from Other Governments	29,347
Prepaid Expenditures	<u>4,306</u>
 TOTAL ASSETS	 <u><u>\$ 258,842</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>	
 <u>LIABILITIES</u>	
Accounts Payable	<u>\$ 893</u>
 <u>FUND BALANCE</u>	
Reserved	
Prepaid Expenditures	4,306
Unreserved	
Designated for Fire Truck	21
Undesignated	<u>253,622</u>
Total Fund Balance	<u><u>257,949</u></u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 258,842</u></u>

The accompanying notes are an integral part of the financial statements.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

GOVERNMENTAL FUND

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2008

Total Fund Balance for Governmental Funds	\$ 257,949
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Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land Improvements	\$	3,480	
Buildings		111,914	
Building Improvements		9,822	
Equipment		779,794	
Accumulated Depreciation		<u>(452,974)</u>	<u>452,036</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 709,985</u>
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The accompanying notes are an integral part of the financial statements.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2008

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Contributions from Local Units	\$ 146,891
Interest and Rents	6,008
Other Revenues	<u>7,355</u>
Total Revenues	<u>160,254</u>
<u>EXPENDITURES</u>	
Public Safety	<u>232,054</u>
Net Change in Fund Balance	(71,800)
<u>FUND BALANCE</u> - Beginning of Year	<u>329,749</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 257,949</u></u>

The accompanying notes are an integral part of the financial statements.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

GOVERNMENTAL FUND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2008

Net Change in Fund Balances Total Governmental Funds	\$ (71,800)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(72,588)
Capital Outlay	<u>172,860</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 28,472</u></u>
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The accompanying notes are an integral part of the financial statements.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Tustin Area Fire District is a joint venture volunteer fire department supported by the Townships of Burdell, Dover and Sherman. Under the criteria established by accounting principles generally accepted in the United States of America, the Fire District has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Contributions from local units and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Fire District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Contributions from local units and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Fire District are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Tustin Area Fire District reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the Fire District's policy to use the restricted resources first, then unrestricted resources as they are needed.

## **D. Assets, Liabilities and Equity**

### ***1. Deposits and Investments***

The Fire District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

- I. The Fire District Board is limited to investments authorized by PA 20 of 1943 and has authorized the Fire District Treasurer to invest funds as follows:
- a. In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
  - b. In certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution. Authorized depositories shall be designated by the Tustin Area Fire District Board at the Board's organizational meeting after each regular election of board members.
  - c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
  - d. In repurchase agreements consisting of instruments listed in subdivision (a).
  - e. In bankers' acceptances of United States banks.
  - f. In investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
  - g. In investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.

**2. *Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles. Fire District revenues are recognized when they become both measurable and available for use to finance Fire District operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

For the 2007 – 2008 fiscal year, the Tustin Area Fire District received as aid \$67,752 from Burdell Township, \$21,180 from Dover Township, and \$57,959 from Sherman Township.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**3. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4. *Capital Assets***

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building Improvements	20
Land improvements	20
Vehicles	5-10
Equipment	5-10

**5. *Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

**6. *Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**7. Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The annual budget is adopted on the modified cash basis based on the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act." A public hearing is held to obtain public comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on January 17, 2007, or as amended by the Fire District Board from time to time throughout the year.

The appropriated budget is prepared by activity. The Fire District Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Fire District because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The District's deposits are all on deposit with Lake Osceola State Bank in Baldwin, Michigan.

*Investment rate risk.* The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

*Foreign currency risk.* The District is not authorized to invest in investments, which have this type of risk.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

*Credit risk.* The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

*Concentration of credit risk.* The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2008, \$125,189 of the government's bank balance of \$225,189 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end, the District held no investments.

**B. Receivables**

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded at the end of the current fiscal year.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**C. Capital Assets**

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets				
Land Improvements	\$ 3,480	\$ 0	\$ 0	\$ 3,480
Buildings	111,914	0	0	111,914
Building Improvements	9,822	0	0	9,822
Equipment	626,934	172,860	(20,000)	779,794
Total capital assets, being depreciated	752,150	172,860	(20,000)	905,010
Less accumulated depreciation for:				
Land Improvements	856	174	0	1,030
Buildings	31,377	2,238	0	33,615
Building Improvements	5,807	491	0	6,298
Equipment	362,346	69,685	(20,000)	412,031
Total accumulated depreciation	400,386	72,588	(20,000)	452,974
Governmental activities capital assets, net	<u>\$351,764</u>	<u>\$100,272</u>	<u>\$ 0</u>	<u>\$452,036</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Public Safety	<u>\$ 72,588</u>
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Construction Commitments:

The District has no outstanding construction commitments as of March 31, 2008.

**D. Long-Term Debt**

At March 31, 2008, the District was not obligated for any long-term debt.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**IV. OTHER INFORMATION**

**A. Contributions from Local Units**

Each Township which is a member of the Fire District assesses a property tax millage or special assessments to support the Fire District. The collections and receivables are recognized by the individual township and remitted to the Fire District periodically. The Fire District recognizes the funds received from the townships as contributions from local units.

**B. Risk Management**

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters, and worker's compensation claims. The government carries commercial insurance to guard against loss from these risks.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED MARCH 31, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Contributions from Local Units	\$ 137,677	\$ 137,677	\$ 146,891
Interest and Rents	3,916	3,916	6,008
Other Revenues	500	500	7,355
Total Revenues	142,093	142,093	160,254
<u>EXPENDITURES</u>			
Public Safety	238,015	238,015	232,054
Net Change in Fund Balance	(95,922)	(95,922)	(71,800)
<u>FUND BALANCE</u> - Beginning of Year	100,338	100,338	329,749
<u>FUND BALANCE</u> - End of Year	\$ 4,416	\$ 4,416	\$ 257,949

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

www.bcbcpa.com

June 3, 2008

### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Fire District Board  
Tustin Area Fire District  
Lake and Osceola Counties  
Tustin, Michigan

We have audited the financial statements of the governmental activities and major fund of the Tustin Area Fire District for the year ended March 31, 2008, and have issued our report thereon dated June 3, 2008. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 19, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the fire district are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. No material misstatements were noted. We did propose several adjusting journal entries that were accepted and recorded by management.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 3, 2008.

### *Other Audit Findings or Issues*

During the course of our audit of the basic financial statements of the fire district for the year ended March 31, 2008, we noted the following list of items which we feel deserve comment:

We recommend that the founding members of the fire district consider reviewing the agreement establishing the fire district. The review should address issues such as detailing the manner by which the organization is funded. For example, is the funding to be a special assessment on real property only equivalent to two mills of taxable value, or a tax levy of two mills on real and personal property? Also, how is any Headlee rollback accounted for? Additional items for discussion should be tax reporting of compensation paid to fire district employees, and whether the treasurer recordkeeping position should rotate every two years or not. Once the agreement is revised, care should be taken to follow the agreement.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

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PHONE: 231-775-9789 FAX: 231-775-9749  
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June 3, 2008

To the Fire District Board  
Tustin Area Fire District  
Tustin, Michigan

In planning and performing our audit of the financial statements of the governmental activities and major fund of the Tustin Area Fire District as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Tustin Area Fire District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

### 1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Fire District and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

The Fire District is aware of these issues and is in the process of trying to implement procedures to correct or mitigate these issues in the future.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies described in (1) above (Lack of Segregation of Duties) constitute material weaknesses.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*